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Mr. David Bean  
Director of Research and Technical Activities  
Governmental Accounting Standards Board  
401 Merritt 7  
Norwalk, CT 06856-5116

RE: Project No. 26-5E

Dear Mr. Bean:

The Governmental Accounting Standards Board recently issued an Exposure Draft (ED) entitled *Fair Value Measurement and Application*. The ED describes how fair value should be defined and measured, what assets and liabilities should be measured at fair value, and what information about fair value should be disclosed in the notes to the financial statements. The Board has asked for comments on all matters in this proposed Statement and specifically requests the reasons for disagreement along with alternative language suggestions.

The Western States Land Commissioners Association (WSLCA) consists of 23 states, which together manage over 440 million acres of land, mineral properties, and land beneath navigable waterways. These public lands were granted to states as a condition of statehood to be maintained in perpetuity either to support general public values or specific institutions such as K-12 public education.

Illustration 4 on page 58 of the ED provides *Examples of Application of the Definition of an Investment*. Example number five (5) related to royalty interests in oil and gas properties states:

5. A state owns royalty interests in certain oil and gas properties. It holds these interests in order to generate income for providing funding to schools within the state. It does not own the tangible land associated with the oil and gas rights. There is no governmental program or service associated with the ownership of the interests. Because the primary purpose of holding the royalty interests is for the purpose of income, and the service capacity is based solely on the ability to generate cash, these assets would meet the definition of an investment.

WSLCA trustees who administer the state grant lands often hold subsurface mineral ownership separate from the surface ownership. In fact, most state laws require land offices not sell the mineral ownership when performing land sales or land exchanges

due to the unknown future value of the estate. Consequently, state trusts hold today nearly as many acres of split estate property as whole estate; into the tens of millions of acres. The federal government has maintained this practice for centuries as well. The important distinction that must be made is the difference between owning the land or subsurface versus owning/purchasing a mineral royalty contract for a developed mineral deposit. We agree that the latter is likely an investment. But that is not what state trust land agencies hold. We hold either the whole estate (surface real estate and subsurface ownership) or split estate wherein we can lease the land for mineral development and receive a royalty as compensation for extraction – whenever that may occur in the future. Any attempt to classify and value split estate *ownership* as an Investment is futile, exorbitantly costly and speculative to say the least.

Similarly, example number six (6) on the same page suffers from interesting assumptions, although the reporting conclusion is satisfactory.

6. A state owns land and timber resources in an undeveloped part of the state. The state holds the resources in order to preserve the natural environment. The state occasionally enters into contracts for a company to cut and sell the timber, for which the state receives a fee. Because the land and timber resources are held primarily for preservation and not for the purpose of income or profit, they would not meet the definition of an investment.

Grant land beneficiaries own the land, forage, timber, minerals and everything in between. These lands are held in perpetuity to provide income for the beneficiaries. Some governmental entities and local jurisdictions certainly may hold land for preservation, open space, watershed protection, etc. As a point of clarification these all represent side benefits to the vast acres of granted lands held in trust. The current practice of recognizing timber cutting values under contract once these instruments are contracted remains appropriate.

In summation, we question the need for either example cited in context of state granted lands, as GASB 51 already instructs that mineral interest and timber rights be treated as intangible assets and accounted for at historical cost; which in our situation is zero.

We appreciate the opportunity to provide our comments. Should you have any questions or need additional information regarding our response, please contact Kathy Opp, executive director – WSLCA (208-870-7407; [kathyjopp@gmail.com](mailto:kathyjopp@gmail.com)).

Sincerely,



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